



AECI

## **Group interim financial results: 2007**

### **Presentation to investors, analysts and media**

24 and 25 July 2007

SPECIALTY PRODUCT AND SERVICE SOLUTIONS



## Summary

- **Comparison with prior year distorted by**
  - sale of Milnerton property in H1'06
  - power outages and other disruptions at SANS in Q1'06
  - investment returns on employer accounts
  - higher interest and tax charges
- **Revenue and profit from operations, excluding property, +23% and +28% respectively**
- **Further progress with major capital projects in Chemserve and AEL**
- **Sold Dulux to ICI plc for R745 million in cash**



## **Business environment**

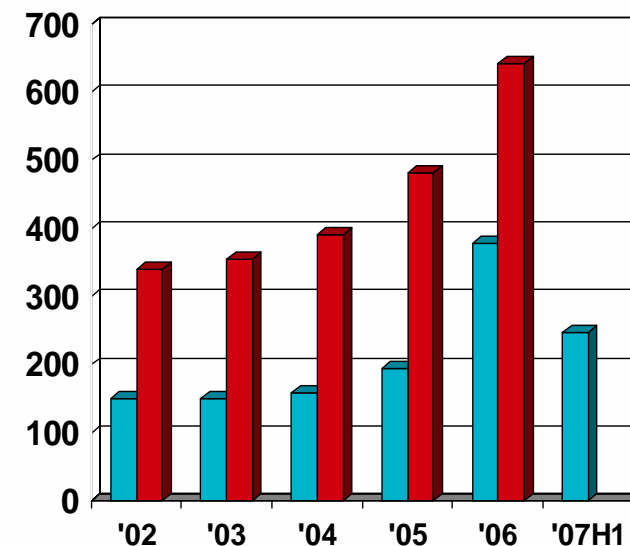
- **Producer price inflation now in double digit territory as oil prices remain high**
- **Satisfactory demand from local manufacturing, mining and consumer sectors**
- **Rand more stable in narrow range; but weaker than year ago**
- **Trend towards global purchasing and benchmarking**
- **Skills shortages result in increased cost of hiring and retaining people**
- **Situation in Zimbabwe deteriorating; Group's exposure limited to trading, mainly to mining industry**



## Results for 2007 H1

- **HEPS -35%**
- **Volumes up, except for detonators**
- **Revenue +16%, and +23% excluding property**
- **Operating margin (excluding property) improved, helped by cost control, notwithstanding resistance to full recovery of increased input costs**
- **Foreign sales +30% in rand and now 24% of Group revenue**

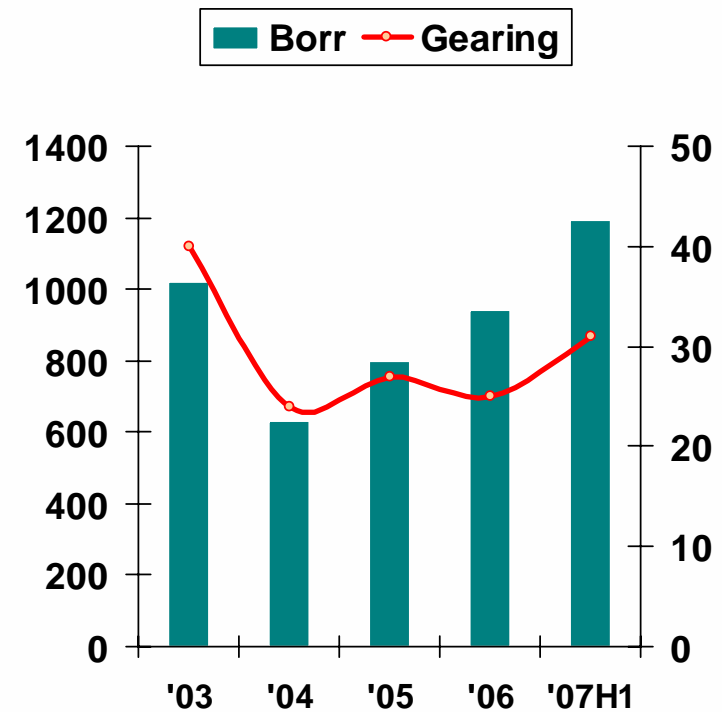
Headline earnings per share (cents)





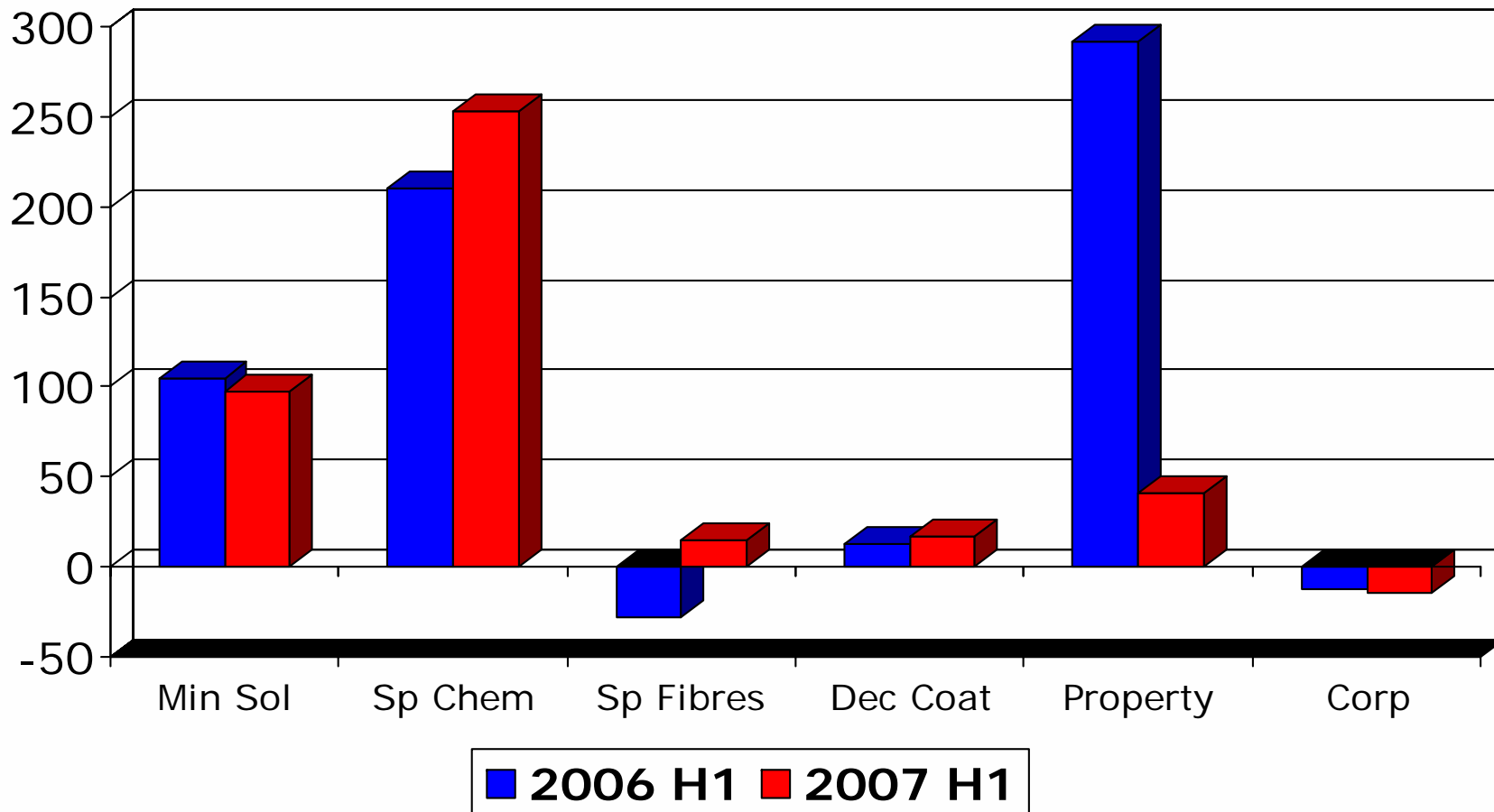
## Financial

- Investment returns on employer accounts boosted profit by R60m
- Capex R275m, more than 2x the depreciation charge; AEL and Chemserve expansions
- WC improved to 17% (18% at June '06)
- Net borrowings of R1 192m, R58m lower than at June '06 = gearing ratio of 31%
- Cash interest cover robust at 8 times



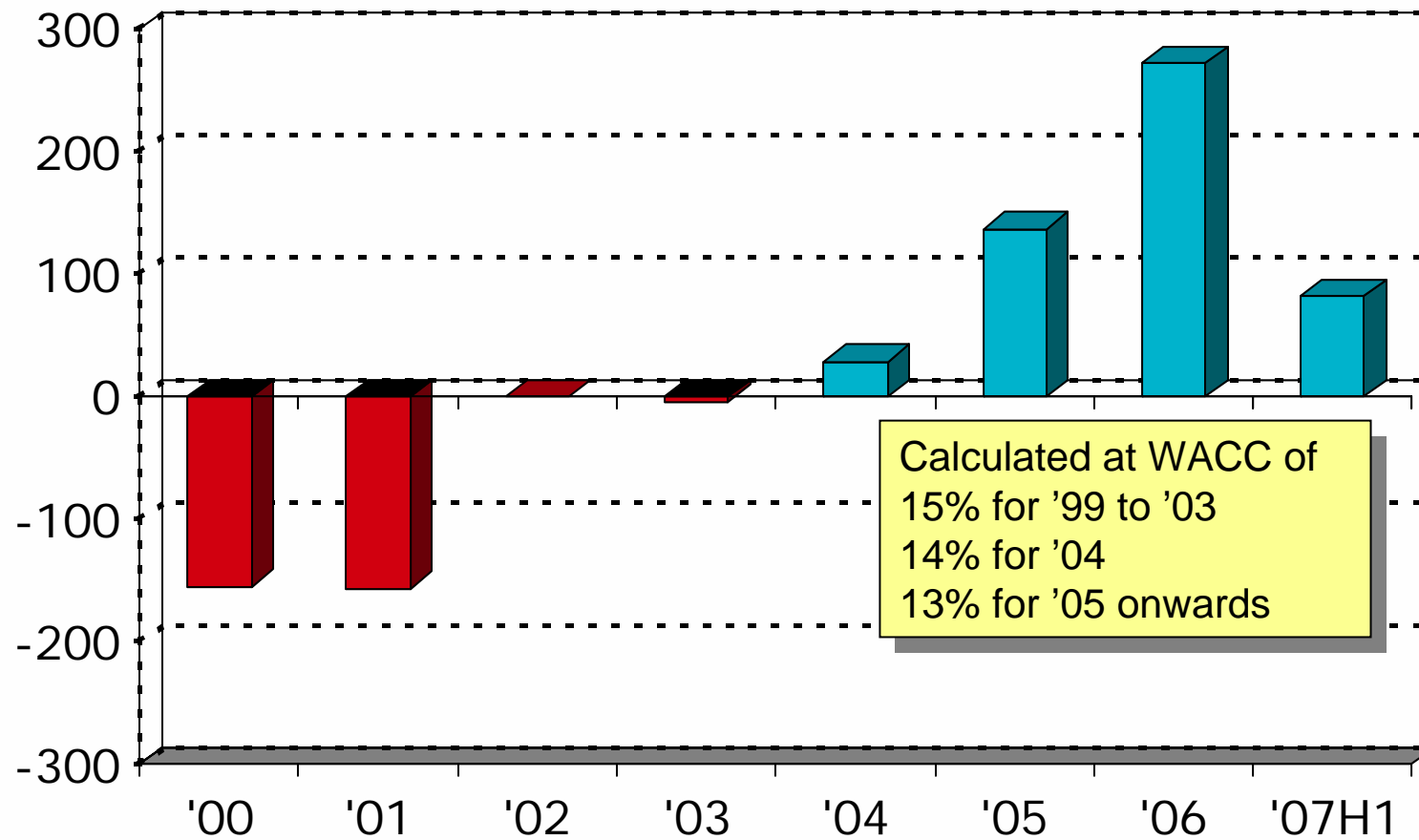


## Segmental trading profit (Rm)





## Group EVA<sup>®</sup> (Rm)





## Mining solutions

- Revenue R1 294m (+12%); TP R97m (-8%)
- Margin 7.5% (9.1%)
- Volumes in Africa and surface markets in South Africa grew strongly
- Record ammonia prices and aggressive purchasing by major customers in a rising cost environment contributed to margin squeeze
- Fixed costs well controlled, somewhat offsetting decline in margins
- **Some market share lost to competitors in narrow reef initiating system market**





## **Mining solutions cont.**

- **Factory modernisation and automation programme continues to progress well**
- **Market converting from capped fuse to shocktube, but more slowly than originally estimated**
- **First automation phase, project Bernice, designed to produce 40 million detonators**
- **Plant now operating at increasing rates**
- **Traditional shocktube plant has ramped up capacity; volumes at planned levels**
- **AEL accelerating past other suppliers; moving into #1 position in shocktube volume terms**



## Mining solutions cont.

- The next phase, project Charlize, (R100m) designed to double Bernice's detonator capacity, manufacture shocktube, and install automated assembly
- Project on track for completion Q4'07
- Expenditure on the final phase, project Denise, (R300m) brought forward; completion expected by end '09
- AEL has spent R160 million of the proposed total R500 million for the automation project



## **Mining solutions cont.**

### **DetNet**

- **International sales improved and the new business model for DetNet bearing fruit**
- **New products introduced in to the Australian market and gaining customer acceptance**
- **Aiming to end '07 at break-even rate**



## Specialty chemicals

- Revenue R2 596m (+25%); TP R253m (+21%)
  - margin 9.7% (10.1%)
  - mainly from organic growth
- Chemical and energy prices and transport costs rising; oil price increasing steadily
- Difficult to recover cost increases in competitive market with double digit raw material price escalations; but margin maintained through cost control
- Continued strong demand from manufacturing, consumer-driven and mining sectors



## Specialty chemicals cont.

- **Growth strategies**
- **Capital investment programme**
  - major projects underway
  - long lead items ordered
  - EIA and tender documents being progressed
  - contractor capacity available
  - easing in some construction costs
- **Other capital investments**
  - include sulphonation expansion, fractionation column in Brazil and warehouse at Chlookop



## Specialty chemicals cont.

- **Growth strategies**
- **Acquisitions**
  - active list in RSA and abroad
- **Brazilian country strategy**
  - expansions underway to increase capacity
  - considering alternative shareholding structure to secure raw material supply
  - actively seeking further acquisitions in region



## Specialty chemicals cont.

- Other
- Masterbatch sale completed



## Specialty fibres

- Revenue R1 062m (+35%); TP R15m (-R28m in H1'06)
- Power outages and other disruptions in Q1'06 did not recur
- Quality and productivity programmes established in '06 delivered significant benefits
- But not sufficient to offset fully the escalation in rand-based costs
- New competition from Far East producers further restricted ability to recover increasing raw material prices





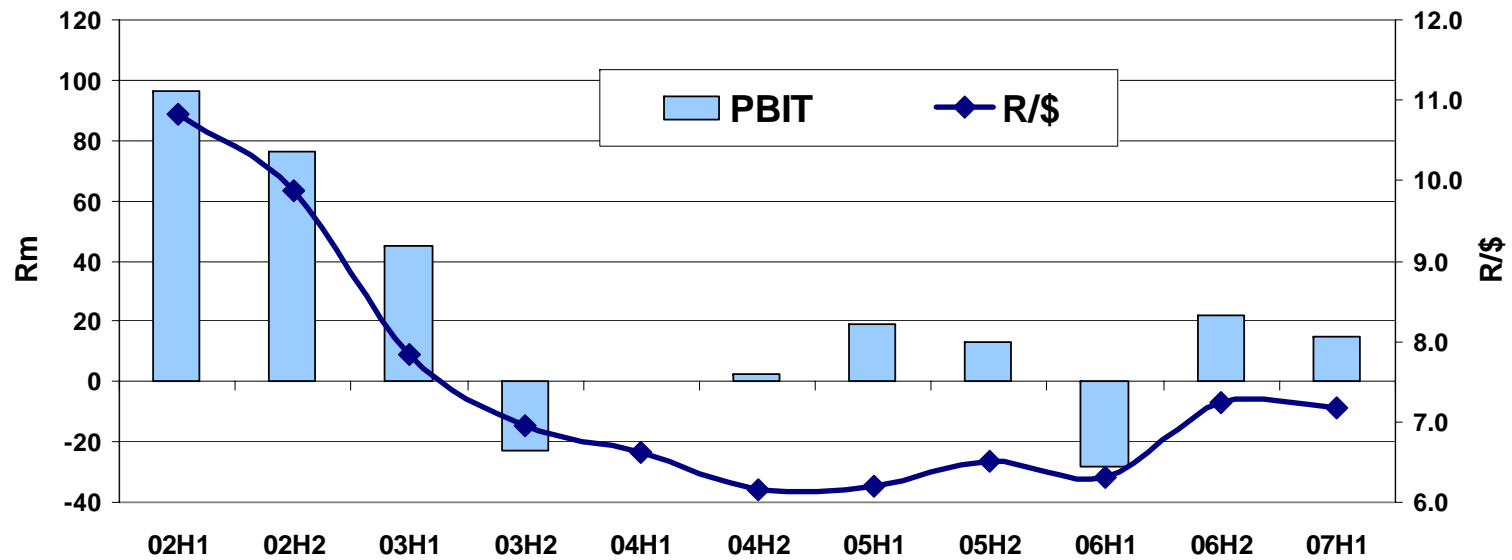
## Specialty fibres cont.

- **Successfully converting to new supplier for nylon polymer**
- **Local demand for PET remains strong; double digit growth**
- **Good progress made in identifying potential strategic partners/ owners that could add value to all/ part of the business**
- **Will also seek finality on USA JV shareholding in this process**



# Specialty fibres

Profit and exchange rate





## Decorative coatings

- Revenue R369m (+24%); TP R17m (+30%)
  - margin 4.6% (4.4%)
- Strong demand in traditional low season
- Improved performance from African operations
- Agreed to sell Dulux and African subsidiaries in Botswana, Malawi, Namibia, Swaziland and Zambia to ICI plc; cash consideration of R745m
- Dulux targets primarily the retail consumer market; not well aligned with Group's strategic focus: supply specialty products and services to manufacturing and mining sectors



## Decorative coatings

- **Subject to regulatory approvals, it is expected that the transaction will take effect from 1 October '07**
- **Gain on disposal of some R500 million will be recognised**
- **At that time, and depending on progress with potential acquisitions, the Board will consider returning all or part of the sale proceeds to shareholders**



## Property

- Revenue R212m (-54%); TP R41m (R292m in H1'06)
- Comparisons distorted by Milnerton sale last year
- Sold property in Richards Bay and last portions of Greenstone Hill
- Delays with rezoning applications in some areas
- Availability of land ready for release and sale likely to remain limited in H2'07



## Outlook

- **Favourable international conditions and firm commodity prices should support local mining and manufacturing sectors with concomitant benefits to Chemserve and AEL**
- **Limited land ready for release and sale, and profit from property to be substantially below '06**
- **Hence management expects that headline earnings per share in 2007 are likely to be lower than those achieved last year excluding the non-recurring effect of the agreement with the Pension Fund in that period**
- **Group to benefit from major investment programmes and property development activities, but mainly in '08 and '09**